Commandant
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COMDTNOTE 7100

MAR 29 2001

COMMANDANT NOTICE 7100   CANCELLED： MAR 28 2002

Subj: CH-8 TO THE FINANCIAL RESOURCE MANAGEMENT MANUAL (FRMM),
        COMDTINST M7100.3A

1. <u>PURPOSE</u>. This Notice incorporates Chief Financial Officers (CFO) Act policies regarding
   Financial Policy For Internal Use Software into the FRMM.

2. <u>ACTION</u>. Area and district commanders; commanders of maintenance and logistics
   commands; and commanding officers of headquarters units, assistant commandants for
   directorates, Chief Counsel, and special staff offices at Headquarters are directed to
   incorporate the enclosed policy changes into their standard operating procedures.

3. <u>DIRECTIVES AFFECTED</u>. This Notice constitutes Change 8 to the Financial Resource
   Management Manual (FRMM), COMDTINST M7100.3A.

4. <u>PROCEDURES</u>. Make the following changes to the Financial Resource Management
   Manual (FRMM). Remove and insert the following pages:

   <u>Remove</u>   <u>Insert</u>

   Table of Contents p. iii thru iv   Table of Contents p.iii thru iv

   p. 7-1 thru p. 7-2   p. 7-1 thru p. 7-2

   p. 7-43 thru p.7-44   p. 7-43 thru p.7-52

DISTRIBUTION – SDL No. 139

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A	1	1	1		1	1																				
B		8	20		1			1	1	1	1	2	1	2	1	1	1	2	1	5	1	1	2	1	1	1
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NON-STANDARD DISTRIBUTION:

5. <u>SUMMARY OF CHANGES</u>. This change incorporates Chief Financial Officers (CFO) Act policies regarding Financial Policy for Internal Use Software.

Robert S. Horowitz
Director of Finance and Procurement

Encl: (1) CH-8 To The Financial Resource Management Manual (FRMM),
COMDTINST M7100.3A

Financial Resource Management Manual

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Financial Resource Management Manual

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CHAPTER 7 – COAST GUARD ACCOUNTING POLICIES AND STANDARDS

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Encl 7-7 ACCOUNTING FOR COAST GUARD INTERNAL USE SOFTWARE

I.   Issue

To establish the accounting policy for internal use software.

II. Applicability

This guidance implements the requirements of the Statement of Federal Financial Accounting Standards (SFFAS) Number 10, Accounting for Internal Use Software, which requires Federal agencies to capitalize the cost of software when such software meets the capitalization criteria as defined below. The Standard is effective October 1, 2000, and is applicable to all internal use software either developed by Federal entities or procured from a contractor. Costs incurred prior to the effective date will not be capitalized.

III. Definitions

A.   Capital Software Project: A project that meets the requirement for capitalization, regardless of funding source, as follows:

(1) An internal use software project which meets or exceeds a cost of $200,000.

(2) An increase in the capacity and/or capability of an existing software (improvement/enhancement) of $200,000 or more.

B.   Software Project Manager: Person responsible for implementation of a capital software project.

C.   Software Program Manager: Person responsible for management and administration of capital software project which has been deployed.

D.   Enhancements: Capitalizable enhancements are defined as significant changes to software that meet the capitalization threshold and add capability or functionality.

E.   Internal use software: Software that is purchased commercially off-the-shelf, internally developed, or contractor-developed solely to meet Coast Guard's internal or operational needs.

   (1)   Commercial Off-The-Shelf (COTS) software: COTS software refers to software that is purchased from a vendor and is ready for use with little or no change.

   (2)   Developed Software

      (a)   Internally developed software: Software that Coast Guard employees actively developed, including new software and existing or purchased software that has been substantially modified with or without the assistance of contractors.

      (b)   Contractor-developed software: Software that the Coast Guard employed a contractor to design, program, install, and implement, including new software and existing or purchased software that has been substantially modified without substantive employee involvement beyond contract monitoring.

F.   Project Management Data Sheet (PMDS): A summary of total software project capital and non-capital expenditures.

IV.   RESPONSIBILITIES

A.   Office of Financial Systems Commandant, (G-CFS): Develops and promulgates policy regarding accounting for costs associated with Coast Guard internal use software.

B.   Office of Financial Management, Commandant (G-CFM): Provides subsequent oversight to field units in order to ensure adherence to the software capitalization policy.

C.   Coast Guard Finance Center (FINCEN):

(1)   Maintains general ledger balances and supporting
documentation for amortization of internal use
software.

(2)   Prepares year-end and other applicable adjusting
journal entries to trace the value of internal
use software.

(3)   Takes lead in ensuring annual reconciliation of
subsidiary records to the accounting system. This
includes preparing a list of reconciling items
for transmittal to the HQ program manager to
assist in reconciling subsidiary records to the
accounting system.

(4)   Ensures completed capital software projects are
removed from the work in progress account and
transferred to the appropriate capital asset
account. This transaction is based upon
information supplied by the Software Project
Manager.

(5)   Ensures internal use software assets meeting
capitalization requirements are accurately
recorded in the correct Property, Plant and
Equipment (PP&E) accounts.

(6)   Upon receipt of signed disposal documents, makes
an appropriate accounting entry to reduce value
of impaired capitalized software.

(7)   Establishes procedures, including data collection
requirements, applicable Coast Guard-wide to
carry out the requirements of this policy.

D.   Office of Information Technology (IT) and Systems
Strategies, Commandant (G-CIS): Requires that all G-
CIS approved internal use software projects with a
software budget of $200,000 or greater are reported to
the FINCEN (FR) annually by the Software Project
Manager.

E. MLC Commanders, Headquarters Program Managers, and
    Commanding Officers of Headquarters Units:

    (1) Assigns a Software Project Manager for all
         Internal Use software projects and a Software
         Program Manager for all completed software
         projects.

    (2) Ensures Software Project and Program Managers
         comply with these requirements.

F. Software Project Manager:

    (1) Maintains financial accountability for software
         projects.

    (2) Fills out a Software PMDS Form and submits it to
         the FINCEN (FR).

    (3) Submits revised Software PMDS Form(s) to FINCEN
         (FR) reflecting actual costs, for all completed
         projects.

    (4) Ensures the proper accounting line is entered on
         all procurement documents and into the unit's
         appropriate financial system. This must include
         correct program elements for projects if
         applicable, cost center of benefiting unit, and
         correct object class code for capitalization,
         where appropriate.

    (5) Requires the establishment of a unique identifier
         for each internal use software capital project in
         the financial information system. FINCEN (FR)
         will provide guidance.

    (6) Requires the timely, complete and accurate
         reporting of all completed projects thereby
         enabling the FINCEN (FR) to properly capitalize
         the software project.

    (7) For internally developed software, submits cost
         data on Coast Guard resources consumed,
         particularly programmer and system analyst using
         Standard Personnel Cost (SPC).

(8)   Records in LUFS-NT timely, complete and accurate
      transactions for all capitalizable internal use
      software projects in accordance with established
      policy (section VI). Maintains accurate project
      accounts, notifies the FINCEN (FR) when an asset
      has been accepted for multiple asset delivery
      projects and when a project is completed.

(9)   The above requirements shall be met in accordance
      with the procedures established by the FINCEN
      (FR).

G.   Software Program Manager:

(1)   Establishes baseline inventories of internal use
      software and maintains inventory records on an
      ongoing basis in their areas of responsibility in
      accordance with section VI below.

(2)   Reconciles, on an annual basis, changes in
      internal use software inventory in the Coast
      Guard designated fixed asset subsidiary system.

(3)   Requires timely notification to FINCEN (FR)
      regarding internal use software impairment or
      disposal.

V.   CAPITALIZATION CRITERIA

A.   Capitalization Threshold. Capitalize internal use
     software with a service life of two years or more and
     which cost $200,000 or more to acquire, develop, set-
     up, implement, and/or enhance.

B.   Bulk Purchases. A bulk purchase of software is the
     single purchase of like items of software in a lot
     (e.g. multiple copies of Windows 2000, MS Office
     2000). Bulk purchases of internal use software and
     modules/components of a total software system that
     each individually meet the capitalization threshold
     shall be capitalized and systematically amortized over
     the estimated useful life of the software or 36 months
     whichever is less. The 36-month period should be
     based on the release date of the product rather than
     the purchase or acquisition date. If the per item
     cost of a bulk purchase does not meet the
     capitalization threshold, it should be expensed in the

period acquired. Bulk Purchases held in the Supply
Fund shall be treated as inventory until sold (e.g.
Oracle Fixed Assets, Entrust Digital Signature).

C.   Distinguishing Capital from Operating Expenditures.
       Table 1 contains the phases of a software project and
       the appropriate accounting treatments for the costs
       incurred at each phase.

Phases of Software Task/Project	Accounting Treatment
Preliminary Design • Conceptual formulation of alternatives • Evaluation and testing of alternatives • Determination of existence of needed technology • Final selection and project approval	• Expense • " • " • "
Software Development/Set-Up • Design of chosen path including software interfaces • Coding/Set-Up • Documentation • Acceptance/Testing/Installation/ Implementation	• Capitalize • " • " • "
Post Implementation/Operational • Application Maintenance • Enhancements • Impairment • Retirement	• Expense • See VI. C. • Reduce Value • Remove Asset

Table 1.

NOTE: In accordance with SFFAS, No. 10, training and data
       conversion expenditures shall be expensed.

VI. Specific Capitalization Guidance

The following costs related to the purchase,
development, or modification of internal use software
shall be initially capitalized in Oracle Projects, if
the costs meet/exceed the $200,000 capitalization cost
threshold and the software is expected to have a
service life of two years or more:

A.   Sources of Internal Use Software:

(1)   Internally Developed Software.

(a) Capitalized cost shall include the full cost
    (direct and indirect cost) incurred by the
    Coast Guard during the software development
    stage. Such cost shall be limited to costs
    incurred after:

(A) Management authorizes and commits to a
    computer software product or project and
    believes that it is more likely than not
    that the project will be completed and the
    software will be used to perform the
    intended function with an estimated
    service life of 2 years or more and;

(B) The completion of conceptual formulation,
    design, and testing of possible software
    project alternatives (the preliminary
    design stage).

(b) The personnel and related cost of Coast Guard
    resources expended during the software
    development or customization stage shall be
    capitalized. To facilitate this process, the
    personnel hours for programmers and system
    analysts shall be costed at the prevailing SPC
    Rate and reported in March and September to
    the FINCEN (FR).

(2)   Contractor-developed software. Capitalized costs
      shall include the amount paid to a contractor to
      design, program, install, and implement the
      software. In addition, material internal costs
      incurred by the Coast Guard to implement the

contractor-developed software and otherwise make it ready for use shall be capitalized.

(3)　COTS. Capitalized costs shall include the amount paid to the vendor for the software license. In addition, material internal costs incurred by the Coast Guard including contractor cost to adjust and implement the software and otherwise make it ready for use shall be capitalized.

B.　Amortization: Total capitalized cost for a software project shall be amortized over a 3-year period. However, where the project contains independent/stand-alone modules or components, amortization shall begin when that module or component has been successfully tested and implemented. If the use of a module is dependent on completion of another module(s), the amortization of that module shall begin when both that module and the other module(s) have successfully completed testing/implementation.

C.　Enhancements:

(1)　The acquisition cost of significant enhancements (added capability/functionality) to existing internal use software which meet the capitalization threshold shall be capitalized.

(2)　Enhancements normally require new software specifications and may require a change of all or part of the existing software specifications as well. The cost of minor enhancements (not meeting the capitalization threshold) resulting from ongoing systems maintenance shall be expensed in the period incurred. For example, upgrading to a new operating system (e.g. Windows 2000) purchased in bulk. Also, the purchase of enhanced versions of software for a nominal charge shall be expensed in the period purchased. Costs incurred solely to repair a design flaw or to perform upgrades that may extend the useful life of the software without adding capabilities/functionality shall be expensed.

D.　Integrated software: Computer software that is integrated into and necessary to operate PP&E, rather than perform a stand-alone application. The software

is considered part of the PP&E. Its cost, shall be recorded within the PP&E accountable system and be amortized accordingly (e.g. software for Vessel Traffic System).

E.   Cutoff for Capitalization: Excluding capitalizable enhancements, cost incurred after final software acceptance testing and successful implementation shall be expensed. For projects involving multiple site installation, the costs capitalized for each site shall accrue only until testing/implementation is completed.